MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC4674 – INTEGRATED CASE STUDY IN ACCOUNTING

(All sections / Groups)

14 MARCH 2020
2:30p.m – 5:30p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of seven pages with 5 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Cosmeceutical Bhd.

Aladin Ahmad is the Director of Manufacturing Division of Cosmeceutical Bhd. His main task for 2020 is to achieve significant cost saving for the manufacturing division. Since the past three years, manufacturing costs have shown a steady increase, despite various cost saving measures implemented. Recently, the Head Office has appointed CV Associates to study the division's operations and suggest improvements to the existing cost saving methods.

CV Associates has carried their task for four months and presented two preliminary reports that showed promising results. Aladin Ahmad stared at one of the reports he just received with worried eyes. The data set used in the report seemed different from the actual operational data. There is a possibility that the consultants have misinterpreted the actual data, perhaps intentionally, in order to justify their roles in the division. He has reservations that the consultants are familiar with the division's operations and culture. From the very beginning, he has been doubtful on the capability of the consultants in providing a good cost saving strategy. He also has voiced his opinion to the higher management but his opinion was ignored.

Many of the operational staff were not happy with cost saving measures introduced by the consultants. Some of them has threatened to resign from the company. One of the line managers has personally complained to Aladin Ahmad that he did not feel empowered and upset that values such as trust and accountability were no longer appreciated. The company has become fixated with achieving the required numbers. He intimated to Aladin that other managers were also as unhappy and have expressed their reluctance to cooperate with the consultants.

Background information

Cosmeceutical Bhd. has three divisions namely Research and Development, Manufacturing, and Logistics. The manufacturing division has about 400 registered products to fulfil the demand from the South-East Asian market. The performance of the manufacturing division is measured by Key Performance Indicators (KPIs) and this division holds certain targets that contribute to the overall KPIs of the company. The division has received Good Manufacturing Practices (GMP) status from Food and Drug Administration (FDA) United States by complying to stringent FDA standards. This is of course a great achievement to the division, especially within the industry which is known for its high cost of compliance.

The company has made huge initial investment in the production facility in order to comply with the GMP requirements, especially in terms of creating "clean rooms" and selecting the correct equipment for the production. One of the GMP standards on the production of pharmaceutical items is that the production machines have to be operated at specific temperature levels. Access to the machines is also limited to the designated staff. Compliance with GMP has also subjected the company to regular audit by the National Pharmaceutical Control Bureau (NPCB).

Continued...

There are three main production areas, namely Production Suite 1, Production Suite 2 and Production Suite 3. Manufacturing operations are organised based on production targets and runs 24/7, with three work shifts. Information about production and targets such as the number of completed batch, work in process, and the target variances – both in units and monetary values, is displayed as electronic dashboards placed at the cafeteria and the entrance to the production department.

Backorder is an issue in Cosmeceutical Bhd. for many years. Within the last two years alone, the company has lost two major contracts due to its inability to deliver its products on time. One of the potential causes of the backorder issue is the low overall equipment effectiveness (OEE). On average, the OEE of manufacturing division is between the ranges of 40 percent to 50 percent, which is considered low. OEE is made up of three elements; availability, efficiency or performance and quality.

The OEE record has been implemented in the manufacturing division since 2007. The OEE monthly record is kept by the production supervisors for all machines. Last year, the internal audit department has pointed out that the production downtime is significant and the trend is increasing. The internal audit report pointed out that faulty machinery and waiting time between batches of production are the main reason for the downtime. The same issue has been highlighted by the internal auditors in the previous audits.

The emergence of high performance culture

The higher management was of the opinion that disparate culture within the company has hindered the achievement of the company's targets. KPIs were not successfully met at all organisational levels. Believing that this was a major obstacle towards achieving its goal, the management took the initiative to inculcate a new culture of high performance throughout the company.

To this end, the higher management has introduced a programme named TOPIC, which promoted a set of desirable behaviours in the company. The programme was developed via a brainstorming session among members of the higher management. As a result, they have agreed on five values that they believed to contribute to high performance, specifically: teamwork, open communication, passion for excellence, integrity, and caring – abbreviated as TOPIC. TOPIC was seen as a way of creating a culture for the whole company by minimising the impact of sub-unit cultures or divisional cultures. The values promoted by TOPIC were directed at shaping understandings, ends and rules of organisational practices. TOPIC was a permanent item on agendas of meetings, and as a result, members were continuously reminded of its importance.

Proud of their new brainchild, banners were placed in all locations in order to raise awareness including the main entrance, in the cafeteria, in common locations and as wallpaper on individual computer desktops; this was considered the right way to be part the company. It sent out the message to everyone that "if they could not subscribe to the desirable behaviours, they should find their exit door".

Continued...

The introduction of TOPIC was not only aimed towards changing staff behaviours, it was also intended to support the implementation of KPIs; and to change organisational practices. The higher management utilised TOPIC to promote the importance of KPIs. Through a series of TOPIC workshops, the staff were informed about KPIs and how they could contribute to the achievement of these. It is during these workshops that staff were continuously reminded to prioritise their contribution to the company instead of what the company could offer. The staff were also prompted that "what the company could offer" should be preceded by efforts from staff towards the company's objectives. Every participant to these workshops was also given a folder that contained reading materials on Balanced Scorecard and KPIs.

In the manufacturing division, however, the higher management found difficulties in engaging the divisional staff to buy in TOPIC ideas. Aladin Ahmad also was having tough time to incorporate TOPIC agenda in the daily activities of manufacturing division. Indeed, he himself is sceptical of the TOPIC ideas. However, to support the higher management initiative, he agreed to co-organised most of the TOPIC workshops or events for the manufacturing division to ensure staff participation to the programme. An example of email communication relating to TOPIC could be found in Appendix A.

The most apparent practice arising from the introduction of TOPIC is on the role of meetings in the organisation. Meetings were not restricted to formal departmental or divisional meeting; they included the practice of having shift briefings on the production floor; and holding ad-hoc briefings regarding emerging issues in day-to-day activities. In the manufacturing division, a production meeting played a significant role in managing the flow of production processes and in assessing their status. In this meeting, the production status was compared with production targets, while accounting information was mobilised with other production knowledge to arrive at a decision.

Although time consuming, many regarded the practice of holding production meetings as encouraging the integration of all departments in working towards the achievement of production targets. With at least one representative from every department present, issues could be clarified and bottlenecks identified, accountability was transparent, and decision-making speeded up. Through meetings, information visibility was created. In the case of backorder, an ad-hoc meeting to address the issue was found to be very fruitful. Surprising information was revealed: the backorder problem was partly the result of invisibility of information in the division.

Continued...

Performance measurement system

Five areas were identified as having strategic importance to the company, represented by the acronym PEPSI, which was constructed on the idea of BSC (Balanced Scorecard, Kaplan and Norton, 1992, 1996). PEPSI represents P=Productivity & Growth; E=Expansion; P=People, S=Systems and Improvement; I=Image. Apart from Image (which was argued to be another perspective significant to the company's performance as a public listed company), other areas correspond to Kaplan and Norton traditional BSC: Productivity & Growth relates to the financial perspective, expansion is consistent with market perspectives, and people refers to the learning perspective. The performance of these five areas is measured by KPIs.

The budgetary process of the Cosmeceutical Bhd. is divided into five years of rolling strategic planning and an annual business plan. The strategic planning usually starts with a specific target set by the company. For instance, in 2014, the company was given a target of achieving RM1.2 billion of revenue and RM115 million of PATAMI (Profit After Tax and Minority Interest) by 2015. Cosmeceutical Bhd. cascaded the target down to the three divisions, which was further cascaded it to their respective departments or sections. From these numbers, the company used PEPSI to formulate strategic actions in the five core areas in order to achieve those targets, and applied the KPIs to measure their performance. In 2017, the company took a further step to cascade the target down to every employee, including non-executives who had to share some parts of the corporate KPIs.

The responsibility for collecting information on divisional PEPSI was given to Corporate Planning Units: Each department was required to submit their PEPSI report to the division head, who then collapsed the information into a divisional PEPSI report. Each division then submitted the information to the Corporate Planning Unit, which is responsible for preparing the PEPSI report, known as Scorecard, for the whole company.

The PEPSI report was produced monthly. Usually the deadline for the divisions to submit this was in the week before the monthly management meeting, attended by the divisional head, the Chief Financial Officer, the Chief Operating Officer, the head of Corporate Planning and chaired by the Managing Director. The head of the Corporate Planning Unit would present the Scorecard for the company as a whole as well as the divisional Scorecard. Usually, the Corporate Planning Unit would highlight the variance between the based target and the stretch target in each element of the Scorecard. The management meeting would discuss the Scorecard and the divisional head explained the reason for the variances and the action plans made in response to these. Attendees would then deliberate the action plans to ensure that steps taken by one division would not be detrimental to the performance of another as well as to the company as a whole. Once they had agreed on the status of the performance and the collective actions that would be taken to address the variances, the managing director would present the company's Scorecard to the parent company at their monthly group meeting.

Continued...

At the November 2019 monthly group meeting, the Managing Director of Cosmeceutical Bhd. revealed the Board of Directors disappointment of the postponement of cascading the target down to every employee including non-executives that was scheduled to start in 2019. The postponement was due to the strong resistance by the employee union, majority of the members are from manufacturing division. The issue of consultant involvement in manufacturing division and the non-executive resistance to the KPIs cascaded down from the HQ were two important agenda that Aladin Ahmad needs to resolve before the next monthly group management meeting.

APPENDIX A

Subject: HPC teambuilding –Rasa Sayang Hotel, Melaka
Importance: High

HPC Greetings to all,

HPC program is here again for you to share the "values by our people… for our people". You have been nominated and selected to experience the fun and excitement in learning experientially the TOPIC, at the same time preparing you for the high performance culture challenges at work.

Date	: 22-24 November 2019
Venue	: Novatel Hotel, Melaka
Participants	: As per attachment. Please check your name and group accordingly.
Event organiser	: Manufacturing Division & HR Department

IMPORTANT!

1. Your attendance is mandatory. Absent without valid reason / notification will be subjected to disciplinary action. Should you be unable to attend, please provide the reason in writing. Verbal excuses will not be entertained.

2. Please reply this e—mail latest by 1 November 2019. We need to ensure no last minute changes as it may interrupt the smooth running of this programme, and kindly include your handphone number for our communication purposes.

3. Please make sure you inform your immediate superiors about this, in case they miss out this communication.

To HODs/Supervisors/Team Leaders,
Please extend this info to those who can't be reached by this email.

Thank you & best regards,
HR Department

Continued…

QUESTION 1

(a) Elaborate the performance issues in manufacturing division.

(10 marks)

(b) Suggest how performance measurement issues identified in (a) can be resolved. Justify your answers.

(10 marks)

QUESTION 2

(a) Describe the ways in which the appointment of consultants can improve the performance of the manufacturing division.

(10 marks)

(b) Discuss major drawbacks of appointing external consultants to the division and to the Cosmeceutical as a whole.

(10 marks)

QUESTION 3

Develop a Balanced Scorecard for the manufacturing division. For each perspective, suggest two measures. Please justify your suggestion. You may organise your answer as per the following table.

Dimension	Measures	Justification

(20 marks)

QUESTION 4

(a) Provide **TWO (2)** examples of controllable costs and two examples of non-controllable costs that could have incurred in the Manufacturing Division.

(4 marks)

(b) For each of the controllable costs identified in (a) above, explain how the costs can be controlled by Aladin Ahmad and the considerations that he should make when deciding on cost reduction strategies.

(8 marks)

(c) Describe **FOUR (4)** strategies that would reduce production downtime at the Manufacturing Division.

(8 marks)

Continued...

QUESTION 5

(a) What could have caused employees' resistance towards the targets cascaded down from the higher management to the non-executives? Explain **TWO (2)** possible reasons.

(6 marks)

(b) Evaluate the company's efforts towards achieving high performance culture.

(14 marks)

(Total: 100 marks)

End of Paper.